

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking into the  
Review of the California High Cost Fund B  
Program

R. 06-06-028

**COMMENTS ON ASSIGNED COMMISSONER'S RULING  
REGARDING THE SCOPING AND SCHEDULING OF PHASE II ISSUES  
OF  
CITIZENS TELECOMMUNICATIONS COMPANY OF CALIFORNIA INC.,  
D/B/A FRONTIER COMMUNICATIONS OF CALIFORNIA**

Kevin Saville  
Associate General Counsel  
2378 Wilshire Blvd.  
Mound, Minnesota 55364  
Telephone: (952) 491-5564  
Facsimile: (952) 491-5577  
E-mail: ksaville@czn.com

Charles Born  
Manager, Government & External Affairs  
9260 E. Stockton Blvd.  
Elk Grove, California 95624  
Telephone: 916-686-3570  
Facsimile: 916-686-3569  
E-mail: cborn@czn.com

Aloa Stevens  
Director, Government & External Affairs  
P.O. Box 708970  
Sandy, Utah 84070-8970  
Telephone: 801-944-3396  
Facsimile: 801-943-0269  
E-mail: astevens@czn.com

November 9, 2007

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking into the  
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R. 06-06-028

**COMMENTS ON ASSIGNED COMMISSONER'S RULING REGARDING THE  
SCOPING AND SCHEDULING OF PHASE II ISSUES**

Citizens Telecommunications Company of California Inc. d/b/a Frontier Communications of California (U 1024 C) ("Frontier") provides these comments on the Assigned Commissioner's Ruling Regarding the Scoping and Scheduling of Phase II Issues filed October 5, 2007 (ACR). Based on Administrative Law Judge Thomas Pulsifer's October 19, 2007 e-mail ruling, opening comments are due November 9, 2007 and reply comments are due November 19, 2007. Frontier offers the following comments to the questions raised in the ACR.

**I. Reverse Auction Design and Implementation**

Frontier is opposed to universal funding being provided and determined based on competitive bidding or a reverse auction. Frontier believes that a reverse auction may undermine investment and maintenance of facilities in high cost and rural areas in California because of the absence of funding predictability associated with an auction process. Frontier is also concerned that with a reverse auction too much focus is placed on minimizing the size of the fund rather than ensuring universal service at affordable rates with high service quality. While controlling the size of the fund is necessary, this goal must take second place to the policy of preserving and advancing universal service.

Reverse auctions and the corresponding lack of predictability and sufficiency of support accompanying an auction process could undermine investment in high cost and rural

communities in California. Every carrier has alternative uses for its capital other than investing in new or upgraded telecommunications plant in rural and high cost areas. Because a carrier may not reasonably expect a return on its investment, unless they win a series of future auctions, reverse auctions are likely to result in reduced rural telecommunications investment. The only reasonable assumption that prudent managers could make would be an assumption of no support, (because they do not win the reverse auction), nor could prudent managers count on large future rate increases to cover their lost support. In the absence of reasonably foreseeable economic returns on investment, carriers would be motivated to invest only the amount of capital required to provide the bare minimum levels of service availability and quality. Absent large rate increases, even these minimal investments would be of questionable profitability.

In addition, with a reverse auction, the funding provided will only be “sufficient” to satisfy the lowest cost provider. If the lowest cost provider, such as a wireless provider, does not require support, then the bids in a competitive situation would likely produce only a minimal amount of support or no support at all. Since cellular costs to cover an area are typically lower than landline costs, a cellular carrier may be able to provide its service at a lower cost. However, negative tradeoffs are certain to occur, such as a correspondingly lower quality of voice transmission, areas of incomplete coverage due to cell site locations and terrain, a frequently higher price for service and a substantially lower amount of bandwidth per customer available for the provision of broadband services and effective E911 service. It may be expected, if the reverse auction players were to behave economically, that the bid amount would be just sufficient to provide cellular carriers an incentive to serve the area in question, but insufficient to provide a reasonable return on existing wireline investments and far short of the necessary funding to motivate any new investments in landline services. Ultimately the customer ends up

with potential poorer choices for reliable and affordable service and with proper access to broadband services.

Frontier also raised its concerns regarding reverse auctions in its comments filed at the FCC in WC Docket No. 05-337 on October 10, 2006. (See Attachment 1.) Because Frontier is opposed to the use of a reverse auction for awarding state High Cost Fund B (B-Fund) funding, Frontier has not addressed the specific questions raised in the ACR regarding how to structure a reverse auction. As an alternative to a reverse auction Frontier recommends that the B-Fund be available to wireline companies certified as an Eligible Telecommunications Carrier (ETC) and Carrier of Last Resort (COLR).

## **II. Cost Proxy Model Update Implementation**

Frontier has not had extensive experience with the HM 5.3 Model and therefore is not in a position to offer substantive comments in response to questions presented in the ACR. However, regardless of the model and methodology, Frontier recommends that the Commission ensure that the data and input included in the model be representative of all the California ILECs and not be limited or skewed by a particular single entity. All parties impacted should have an opportunity to review and submit the data input requirements and assumptions in the cost proxy model.

## **III. Other Phase II Issues**

### **Transitional Basic Rate Caps**

***Question:*** (a) *To promote an orderly transition and prevent sudden large rate increases, what maximum level above the currently authorized caps should be set as the revised cap on basic rates for each respective ILEC before full pricing flexibility is to take effect?*

**Response:** Frontier agrees with the underlying premise of this question that the Commission must be cognizant and concerned about the rate shock consumers may experience with increases

in basic local service rates. This is especially the case if the Commission does not ensure that a viable High Cost Funding mechanism is in place for ILECs to offset and recover Commission mandated reductions in intrastate access rates. Frontier recommends allowing an increase of up to \$4 per year for four years before full flexibility is realized.

**Question:** *(b) What period of time is appropriate for the phase-in of increases in the caps on ILEC basic rates to transition from current levels to a level at which further cap restrictions can be eliminated and full pricing flexibility implemented? Provide appropriate supporting rationale for each proposal concerning rate caps and duration of the phase-in period.*

**Response:** Frontier recommends up to \$4 per year for four years. Four years is a reasonable and extended period to allow customers to adjust to and accept higher basic service rates as companies move their basic service rates toward the cost of providing the service. It should be noted that the competitive market place would dictate whether an URF company elects to increase its rates.

### **Certification Process to Quality for B-Fund Support**

**Question:** *What process should be implemented whereby the COLR shall certify that its services and rates in high cost areas are reasonably comparable to services offered in urban areas once full pricing flexibility takes effect?*

**Response:** As part of its annual certification as an ETC and in order to be eligible to receive federal universal service funding, the carrier must certify, under oath, that the “federal universal service high-cost support provided to the carrier will be used only for the provision, maintenance, and upgrading of facilities and services for which support is intended.”<sup>1</sup> A similar certification should be required for carriers to be eligible to receive High Cost B funding. As part of the B-Fund certification, the carrier should certify that the scope of its services and its basic local service rates are comparable in the rural and urban areas.

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<sup>1</sup> Resolution T-17002, Adopting Comprehensive Procedures and Guidelines for Eligible Carrier Designation and Requirements for Eligible Telecommunications Carriers, Appendix B, Section A.6.

## **Broadening the Base for Eligibility to Receive B-Fund support**

**Question:** *Should existing rules for eligibility to receive B-Fund support be modified to accommodate a broader base of eligibility for B-Fund support to include wireless and other intermodal carriers? Comments are solicited as to the merits of such a modification as a way to promote competitive neutrality in the allocation of B-Fund support, consistent with public policy goals. What other considerations or revisions in existing rules may be appropriate or necessary to accommodate such a change?*

**Response:** The Commission should rule that only carriers designated as ETCs for purposes of federal universal service funding are eligible to receive B-Fund Support. To qualify as an ETC the carrier must demonstrate that it meets the minimum criteria, including the criteria that it will provide the basic services throughout the area for which it will be designated as an ETC.<sup>2</sup> In Resolution T-17002, Adopting Comprehensive Procedures and Guidelines for Eligible Carrier Designation and Requirements for Eligible Telecommunications Carriers, the Commission determined that it would largely apply the FCC standards for ETC designations, including the requirement that a carrier be able to provide service throughout the territory in which it is designated as an ETC and will receive funding. Frontier recommends that the state B-Fund be available to wireline companies certified as an ETC and COLR and are committed to serving the ILEC's entire exchange or wire center level.

## **Standards/Procedures for Future Period Review of the B-Fund Program**

**Question:** *What standards and procedures should be applied for future periodic review of the B-Fund program in order to ensure that the program continues to be effective in meeting the Commission's universal service goals?*

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<sup>2</sup> Both the California Commission and FCC have determined that the list of supported services an ETC must provide are: 1) Single party service; 2) voice grade access to the public switched network; 3) local usage, 4) dual tone multi-frequency signaling or functional equivalent; 5) access to emergency services; 6) access to operator services; 7) access to directory assistance; 8) access to interexchange service and 9) toll limitation for qualifying low-income customers.

**Response:** The program should be triennially reviewed at the administrative and policy level to insure that it is effective and meeting universal service objectives. The review should include gathering annual measurement statistics from the participating carriers. Frontier suggests that this be reviewed in a Commission workshop.

### **Streamlined Administration of B-Fund Receipts and Disbursements**

**Question:** *Through what standards and procedures can the administration of the B-Fund program be made more streamlined and efficient?*

**Response:** There are several changes that can and should be made regarding the administration of the B-Fund program. The objective should be to simplify and reduce the processing steps required to accurately determine and pay the B-Fund program claims. Frontier recommends that a workshop, with the participation of subject matter experts that have had experience with the B-Fund program, participate in the workshop. Areas that should be considered, include: 1) electronic filing, 2) claims approved and paid based on summary level filings, subject to periodic audits and/or review; and 3) claims based on all primary residential lines, regardless of Lifeline support.

## **IV. Conclusion**

Frontier supports continuation of the B- Fund and working together with other carriers and the Commission to improve the process in such a way that the stated goals of universal service support for high cost areas is met in the most efficient and low cost manner with sacrificing service quality, service availability and affordability. Frontier does not believe that the reverse auction method is a viable means to help meet this objective.

Dated November 9, 2007

Respectfully submitted,

CITIZENS TELECOMMUNICATIONS COMPANY OF CALIFORNIA INC.  
D/B/A FRONTIER COMMUNICATIONS OF CALIFORNIA

A handwritten signature in black ink that reads "Kevin Saville". The signature is written in a cursive, flowing style.

Kevin Saville  
Associate General Counsel  
2378 Wilshire Blvd.  
Mound, Minnesota 55364  
Telephone: (952) 491-5564  
Facsimile: (952) 491-5577  
E-mail: ksaville@czn.com

Charles Born  
Manager, Government & External Affairs  
9260 E. Stockton Blvd.  
Elk Grove, California 95624  
Telephone: 916-686-3570  
Facsimile: 916-686-3569  
E-mail: cborn@czn.com

Aloa Stevens  
Director, Government & External Affairs  
P.O. Box 708970  
Sandy, Utah 84070-8970  
Telephone: 801-944-3396  
Facsimile: 801-943-0269  
E-mail: astevens@czn.com



### **CERTIFICATE OF SERVICE**

I, Barbara Matson, hereby certify that on this day I served a copy of the COMMENTS of

CITIZENS TELECOMMUNICATIONS COMPANY OF CALIFORNIA INC.,  
D/B/A FRONTIER COMMUNICATIONS OF CALIFORNIA

to all parties on the CPUC's service list for R.06-06-028. I true and correct Adobe Acrobat PDF copy was E-mailed to those parties on the service list who provided an E-mail address. For those parties who have not provided the Commission an electronic address, paper copies were provided via U.S. Mail.

Dated at Mound, Minnesota, this 9th day of November 2007.

A handwritten signature in cursive script, appearing to read "Barbara Matson".

Barbara Matson  
Citizens Communications  
2378 Wilshire Blvd.  
Mound, Minnesota 55364

## SERVICE LIST 06-06-028

kevin.saville@frontiercorp.com  
astevens@czn.com  
jesus.g.roman@verizon.com  
esther.northrup@cox.com  
cmailloux@turn.org  
elaine.duncan@verizon.com  
rcosta@turn.org  
bnusbaum@turn.org  
ndw@cpuc.ca.gov  
david.discher@att.com  
michael.foreman@att.com  
peter.hayes@att.com  
Stephen.h.Kukta@sprint.com  
thomas.selhorst@att.com  
pcasciato@sbcglobal.net  
jclark@gmssr.com  
mschreiber@cwclaw.com  
smallecs@cwclaw.com  
suzannetoller@dwt.com  
tregtremont@dwt.com  
tlmurray@earthlink.net  
douglas.garrett@cox.com  
latanya.linzie@cox.com  
grs@calcable.org  
ll@calcable.org  
pucservice@dralegal.org  
scratty@adelphia.net  
cborn@czn.com  
beth.fujimoto@cingular.com  
cindy.manheim@cingular.com  
PHILILLINI@aol.com

mhm@cpuc.ca.gov  
jjs@cpuc.ca.gov  
kar@cpuc.ca.gov  
lah@cpuc.ca.gov  
mal@cpuc.ca.gov  
mfo@cpuc.ca.gov  
mki@cpuc.ca.gov  
nxb@cpuc.ca.gov  
ncl@cpuc.ca.gov  
psp@cpuc.ca.gov  
rkk@cpuc.ca.gov  
rwc@cpuc.ca.gov  
rwh@cpuc.ca.gov  
trp@cpuc.ca.gov  
rudymreyes@verizon.com  
marg@tobiaslo.com  
mmattes@nossaman.com  
katienelson@dwt.com  
ens@loens.com  
lmb@wblaw.net  
mp@calcable.org  
pucservice@dralegal.org  
joe.chicoine@frontiercorp.com  
mcf@calcomwebsite.com  
dgw@cpuc.ca.gov  
don.eachus@verizon.com  
jacque.lopez@verizon.com  
mshames@ucan.org  
kristin.l.jacobson@sprint.com  
marcel@turn.org